

SCIACCA & COMPANY

Review Report

QUALITY CONTROL REVIEW

For the Firm's Audit of
Sundale Union Elementary School District
for the Fiscal Year Ended June 30, 2002



STEVE WESTLY
California State Controller

April 2005



STEVE WESTLY
California State Controller

April 8, 2005

Fred Sciacca, CPA
Sciacca & Company
2200 West Main Street
P.O. Box 110
Visalia, CA 93279

Dear Mr. Sciacca:

The State Controller's Office (SCO) completed a quality control review of Sciacca & Company. We reviewed the audit working papers for the firm's audit of the Sundale Union Elementary School District for the fiscal year ended June 30, 2002.

A draft report was issued on February 18, 2005. The firm's response to the draft report is included in this final report.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

"original signed by"

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/kmm

cc: Jim Vidak, Superintendent
Tulare County Office of Education
Cliff Gordon, Superintendent
Sundale Union Elementary School District
Arlene Matsuura, Educational Consultant
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems, Department of Finance

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Review Report

Summary

The State Controller's Office (SCO) completed a quality control review of the audit working papers for the audit performed by Sciacca & Company of the Sundale Union Elementary School District for the fiscal year ended June 30, 2002 (FY 2001-02). The last day of fieldwork was July 29, 2004.

The audit referred to above was performed in accordance with some elements of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO. However, the majority of auditing standards and requirements were not met. The basis for our opinion is that the firm violated GAAS and GAGAS with regard to general standards, fieldwork standards, and reporting standards. The firm did not comply with OMB Circular A-133 and K-12 Audit Guide requirements with respect to performing the audit with due professional care.

Background

Any governmental unit subject to a single audit must have the audit performed in accordance with the standards referred to in this report. According to OMB Circular A-133, the auditor's work is subject to a quality control review at the discretion of an agency granted cognizant or oversight status by the federal funding agency. In addition, *Education Code* Section 14504.2 authorizes the SCO to perform quality control reviews of working papers for audits of K-12 local educational agencies (LEAs) to determine whether audits are performed in accordance with U.S. General Accounting Office standards for financial and compliance audits.

Sciacca & Company is an independent certified public accounting firm with an office located in Visalia, California. The firm consists of two partners. This is the first year the firm has been the independent auditor for the Sundale Union Elementary School District. During FY 2001-02, the district operated one elementary school (K-6) and one middle school (7-8), with a total average daily attendance (ADA) of 542 for the purpose of state funding.

**Objectives,
Scope, and
Methodology**

The general objectives of our quality control review were to determine whether this audit was conducted in compliance with:

- GAGAS
- GAAS
- K-12 Audit Guide
- OMB Circular A-133

The quality control review was conducted at the office of Sciacca & Company. We compared the audit work performed by the firm, as documented in the working papers, with the standards stated in the general objectives.

Conclusion

The audit referred to above was performed in accordance with some elements of the standards and requirements set forth in GAGAS, GAAS, OMB Circular A-133, and the K-12 Audit Guide; however, the majority of auditing standards and requirements were not met. The basis for our opinion is discussed in the Findings and Recommendations section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Sciacca & Company.

**Views of
Responsible
Official**

We issued a draft report on February 18, 2005. Fred Sciacca, partner, responded by the attached letter dated March 14, 2005, agreeing with the review results. The final report includes Sciacca & Company's response as the Attachment.

Restricted Use

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.

“original signed by”

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Findings and Recommendations

General

The Single Audit Act and *Standards and Procedures for Audits of K-12 Local Educational Agencies* (K-12 Audit Guide), published by the SCO, require audits to be performed in accordance with U.S. generally accepted auditing standards (GAAS). These standards deal with the quality of the audits performed by the independent auditor and have been approved and adopted by the American Institute of Certified Public Accountants (AICPA). GAAS is divided into three areas: (1) general standards; (2) fieldwork standards; and (3) reporting standards. The three areas are divided into ten specific standards. In addition to GAAS, auditors of governmental entities must also perform audits in accordance with generally accepted government auditing standards (GAGAS), which expands the GAAS standards in several areas.

In the course of this quality control review, we found that Sciacca & Company did not comply with the majority of GAAS and GAGAS.

In addition, the firm did not adequately document testing of the state compliance requirements of the K-12 Audit Guide and the single audit requirements for federal programs.

Noncompliance With General Standards (GAAS, GAGAS)

FINDING 1— Due professional care deficiencies

The firm did not consistently exercise due professional care in conducting the audit and in preparing related reports. Findings 2 through 8 provide several examples of the failure to exercise due professional care.

The firm did not use sound judgment in establishing the scope, selecting the methodology, and choosing and conducting tests and procedures for the audit. For example, the firm did not perform a single audit of federal programs, as required by Office of Management and Budget (OMB) Circular A-133, and, consequently, did not test program compliance or internal control over compliance (Finding 6). In addition, the working papers did not contain written procedures for the state compliance programs or evidence that the programs were audited in accordance with the K-12 Audit Guide (Finding 7).

The working papers did not clearly document the procedures performed. The findings and conclusions reached were not fully supported by sufficient, competent, and relevant evidence obtained or developed during the audit. In some cases, there was no documentation of work performed in the working papers. For state compliance testing, there were several instances where no procedures were documented or the procedures listed did not follow the K-12 Audit Guide. The firm stated that testing was performed, but it was not documented in the working papers (Finding 7).

Further, the firm did not follow all applicable reporting standards. All reports stated that the audit was performed in accordance with auditing standards, when, in fact, the audit was not performed in accordance with auditing standards (Finding 8).

AU 339.05 states that working papers:

... should be sufficient to show that the applicable standards of fieldwork have been observed. Working papers ordinarily should include documentation showing that—

- a. The work has been adequately planned and supervised. . . .
- b. A sufficient understanding of internal control has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- c. The audit evidence obtained, the auditing procedures applied, and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion.

GAGAS 3.26 states:

Due professional care should be used in conducting the audit and in preparing related reports.

GAGAS 3.28 states:

Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting the audit results.

GAGAS 3.29 states, in part:

Auditors should use sound professional judgment in determining the standards that apply to the work to be conducted. The auditors' determination that certain standards do not apply to the audit should be documented in the working papers. . . .

The firm failed to demonstrate due professional care in conducting the audit and preparing the related reports.

Recommendation

The firm should comply with GAAS and GAGAS in performing audits, and the firm should comply with OMB Circular A-133 and K-12 Audit Guide requirements. In addition, the firm should ensure that audit reports are adequately supported by the working papers. Also, the working papers should include all audit procedures performed and the details of testing.

Noncompliance With Fieldwork Standards for Financial Audits (GAAS, GAGAS)

FINDING 2— Planning deficiencies

The firm did not consistently document audit planning procedures. Therefore, the SCO reviewer was unable to determine if the procedures were adequate and in compliance with professional standards.

The firm's understanding of the scope and objectives of the audit was not adequately documented in the audit contract. The audit contract did not include provisions that the audit would be conducted in accordance with OMB Circular A-133 and *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States, nor did it identify the financial statements audited, the reports to be prepared, and withholding provisions, or provide for access to working papers.

There were no procedures in the working papers documenting follow-up of prior-year audit findings. The audit report indicated whether or not prior-year audit findings were implemented, but the CPA stated that procedures for following up on findings were not documented.

AU 311.03 states, in part:

Audit planning involves developing an overall strategy for the expected conduct and scope of the audit. The nature, extent, and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business. In planning the audit, the auditor should consider, among other matters: . . .

- d. Planned assessed level of control risk.
- e. Preliminary judgment about materiality levels for audit purposes.

AU 311.05 states:

In planning the audit, the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or set of written audit programs) for every audit. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail will vary with the circumstances. In developing the program, the auditor should be guided by the results of the planning considerations and procedures. As the audit progresses, changed conditions may make it necessary to modify planned audit procedures.

GAGAS 4.6.3 states:

Auditors should communicate information to the auditee, the individuals contracting for or requesting the audit services, and the audit committee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting.

GAGAS 4.10 states:

Auditors should follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. They should do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors should report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

The K-12 Audit Guide, Section 220, states, in part:

All entities shall include in their contract for audit the provisions described below. . . .

The State Controller shall be granted access to working papers prepared by the auditors.

Inadequate planning affects the nature, extent, and timing of work to be performed and may make the audit less effective. Procedures that should be performed may be overlooked and audit risks increased as a result.

Recommendation

The firm should ensure that the scope and objectives of the audit are fully documented in the audit contract. In addition, the firm should document its follow-up on significant findings and recommendations from previous audits.

FINDING 3— Internal control deficiencies

The firm did not consistently determine whether internal control policies and procedures had been placed in operation. The CPA used a questionnaire to document internal control audit procedures but did not verify that the controls had been placed in operation. Also, the working papers documented a “no” answer to the question, “Are personnel performing the general accounting/general ledger/journal entry function not involved in the detail recording functions of accounts receivable, accounts payable, or purchasing?” There was no explanation and no finding was reported. There was no evidence in the working papers that the firm performed tests of controls, and the CPA stated that no tests of controls were performed.

AICPA standards and GAGAS require that auditors obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed.

AU 319.02 states, in part:

In all audits, the auditor should obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial statements and determining whether they have been placed in operation.

AU 319.25 states, in part:

In all audits, the auditor should obtain an understanding of each of the five components of internal control sufficient to plan the audit. A sufficient understanding is obtained by performing procedures to understand the design of controls relevant to an audit of financial statements, and whether they have been placed in operation. . . .

AU 319.61 states, in part:

The auditor should document the understanding of the entity's internal control components to plan the audit. The form and extent of this documentation is influenced by the nature and complexity of the entity's controls. . . .

GAGAS 4.21 states:

Auditors should obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed.

GAGAS 4.21.1 states:

AICPA standards and GAGAS require that, in all audits, the auditor obtain an understanding of internal control sufficient to plan by performing procedures to understand (1) the design of controls relevant to an audit of financial statements and (2) whether controls have been placed in operation. This understanding should include a consideration of the methods an entity uses to process accounting information because such methods influence the design of internal control.

If internal controls are not adequately evaluated, internal control weaknesses may not be identified and tests performed may not be adequate.

Recommendation

The firm should determine and document whether internal control policies and procedures had been placed in operation. In addition, the firm should evaluate exceptions noted during internal control reviews and consider expanding testing or reporting an internal control finding.

FINDING 4— Evidential matter deficiencies

The working papers did not contain adequate documentation related to the firm's testing of inventory balances, and a physical inventory was not observed. Procedures for testing inventory, initialed by the CPA, were included in the working papers; however, there was no supporting documentation evidencing that the procedures were performed. The CPA documented his conclusions in an auditor's note, which stated:

State commodities are received on a monthly basis. Other food items needed are ordered and delivered on a weekly basis. The cafeteria staff makes an effort to assure that very little if any items are still in stock as of the end of the school year as there is no real storage space for keeping foodstuffs. As the school year ends during the first part of June, the cafeteria staff verifies that very little was on hand as of June 30, 2002; however, an actual inventory was not taken. As any

amount that might have been on hand would be immaterial with regards to the District financial statements taken as a whole, it was decided not to attempt to reconstruct an inventory balance as of June 30, 2002.

The firm did not perform any tests of controls to verify the district's stated inventory policies and procedures. In addition, the firm stated that an actual inventory was not taken; however, this statement contradicted the firm's internal control questionnaire, which stated that periodic physical inventories are taken and balanced to the perpetual records.

The SCO reviewer was unable to determine if the stores inventory balances were immaterial, based on the supporting documentation provided. The stores inventory was not reported in the financial statements, and there was no documentation related to the inventory balance or materiality in the working papers. The *California School Accounting Manual* requires that a physical inventory be taken at least once a year. The CPA stated that a physical inventory should have been performed and that inventory balances should have been documented in the working papers.

Furthermore, because the firm did not perform a single audit, as required, the fair market value of any donated food commodities was not determined or reported, as required.

AU 326.01 states:

The third standard of fieldwork is:

Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

AU 326.02 states:

Most of the independent auditor's work in forming his or her opinion on financial statements consists of obtaining and evaluating the evidential matter concerning the assertions in such financial statements. The measure of the validity of such evidence for audit purposes lies in the judgment of the auditor; in this respect audit evidence differs from legal evidence, which is circumscribed by rigid rules. Evidential matter varies substantially in its influence on the auditor as he or she develops an opinion with respect to financial statements under audit. The pertinence of evidence, its objectivity, its timeliness, and the existence of other evidential matter corroborating the conclusions to which it leads all bear on its competence.

California School Accounting Manual, Section 605-7, states, in part:

The LEA staff should take a physical count of the inventory at least once a year. The purpose of the physical count is to confirm that the amount recorded on the LEA's books is correct or to adjust the amount on the books to the actual amount.

The OMB Circular A-133 Compliance Supplement, Section 4-10.533, III.N.2, states, in part:

Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

The OMB Circular A-133 Compliance Supplement, Section 4-10.533, IV, states, in part:

... the value of commodities used during a State or recipient agency's fiscal year is considered Federal awards expended. ... Therefore, recipient agencies must determine the value of commodities used.

Due to the lack of supporting documentation in the working papers, the SCO reviewer was unable to determine if the firm's opinion regarding the stores inventory was fairly stated.

Recommendation

The firm should comply with GAAS and ensure that adequate evidential matter is obtained and audited. In addition, the firm should ensure that the district has complied with applicable accounting requirements and that all procedures performed are documented in the working papers.

FINDING 5— Working paper deficiencies

The SCO reviewer identified several instances of noncompliance with working paper standards. Following are examples.

Working papers did not consistently contain the results of the audit tests and procedures performed.

The SCO reviewer was unable to determine whether sample items were representative of the population. The CPA stated that haphazard sampling was used. The working papers did not indicate the sample population or the universe size.

For the stores inventory, the CPA did not document tests of balances or document the determination of materiality. A physical inventory or observation was not performed.

The working papers did not support the firm's report on internal control. There was no testing of controls performed.

The working papers did not support the firm's report on state compliance. The working papers did not document the audit procedures performed, and no documentation was provided for some of the programs. The CPA stated that the K-12 Audit Guide was used in testing state compliance programs; however, the CPA was not able to provide a copy of the guide used during the audit.

AU 339.05 states, in part:

Working papers ordinarily should include documentation showing that–

- a. The work has been adequately planned and supervised. . . .
- b. A sufficient understanding of internal control has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- c. The audit evidence obtained, the auditing procedures applied, and testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion, indicating observance of the third standard of fieldwork.

GAGAS 4.35 states:

Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

GAGAS 4.36 states:

Audits done in accordance with GAGAS are subject to review by other auditors and by oversight officials more frequently than audits done in accordance with AICPA standards. Thus, whereas AICPA standards cite two main purposes of working papers – providing the principal support for the audit report and aiding auditors in the conduct and supervision of the audit – working papers serve an additional purpose in audits performed in accordance with GAGAS. Working papers allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors' significant conclusions and judgments.

GAGAS 4.37 states:

Working papers should contain:

- a. the objectives, scope, and methodology, including any sampling criteria used;
- b. documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records.

Without adequate documentation, the judgments made and conclusions reached are not supported.

Recommendation

The firm should ensure that working papers are prepared in accordance with GAAS and GAGAS.

Noncompliance With Federal Single Audit Requirements

FINDING 6— Required single audit not performed

The firm did not perform a single audit, as required by OMB Circular A-133. The Schedule of Expenditures of Federal Awards, presented in the FY 2001-02 audit report, showed that the district expended \$359,161 in federal funds. The firm completed a single audit and major program determination worksheet, and it identified major programs using the percentage of coverage rule. However, the firm concluded that a single audit was not required because none of the individual program expenditures exceeded \$300,000.

OMB Circular A-133, Subpart B, Section 200(b), states, in part:

Non-Federal entities that expend \$300,000 . . . or more in a year in Federal awards shall have a single audit conducted in accordance with Section .500 except when they elect to have a program-specific audit conducted. . . .

Because a single audit was not performed as required, federal program noncompliance and internal control deficiencies may not have been identified or reported. In addition, because a single audit was not performed, the district is subject to the following sanctions per OMB Circular A-133, Section 225:

- Withholding a percentage of federal awards until the audit is completed satisfactorily;
- Withholding or disallowing overhead costs;
- Suspending federal awards until the audit is conducted; or
- Terminating the federal award.

Recommendation

The firm should seek training to ensure that it understands OMB Circular A-133 audit requirements and performs audits in accordance with those requirements.

Noncompliance With K-12 Audit Guide Requirements

FINDING 7— State compliance deficiencies

The SCO reviewer noted that the firm had little to no documentation in the working papers for eight of the nine state compliance programs audited by the firm to show that K-12 Audit Guide procedures were followed.

There was no documentation in the working papers to support the firm's conclusion that the district complied with all state program requirements for the following programs:

- Kindergarten Continuation
- Incentives for Longer Instructional Day
- Class Size Reduction Program
- State Instructional Materials Fund K-8
- Schiff-Bustamante Standards-Based Instructional Materials
- California Public School Library

In addition, the documentation for testing of attendance reporting and staff development days was inadequate. Consequently, the SCO reviewer was unable to determine whether the audit procedures had been performed.

The auditor stated that he followed the K-12 Audit Guide in testing all state programs; however, he was not able to provide the SCO reviewer a copy of the audit guide used during the audit.

The K-12 Audit Guide, Section 510, states:

All state requirements identified in Section 520 that are applicable to the entity must be tested for compliance with state laws and regulations. . . . [In addition,] each compliance requirement is accompanied by suggested audit procedures that can be utilized as determined by the auditor's professional judgement.

AU 339.01 states:

The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in the working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached concerning significant matters.

GAGAS 4.35 states:

The additional working papers standard for financial statement audits is: Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

GAGAS 4.36 states:

Audits done in accordance with GAGAS are subject to review by other auditors and by oversight officials more frequently than audits done in accordance with AICPA standards. Thus, whereas AICPA standards cite two main purposes of working papers – providing the principal support for the audit report and aiding auditors in the conduct and supervision of the audit – working papers serve an additional purpose in audits performed in accordance with GAGAS. Working papers allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors' significant conclusions and judgments.

GAGAS 4.37 states, in part:

Working papers should contain . . . b. documentation of the work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records, . . .

Education Code Section 14503(a) states:

For each state program compliance requirement included in the audit guide, every audit report shall further state the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed.

The firm did not consistently perform, or adequately document, the suggested audit procedures contained in the K-12 Audit Guide for the programs identified. Therefore, the firm's conclusion regarding the district's compliance with state laws is not supported and may be incorrect.

Recommendation

The firm should ensure that all procedures are performed accurately and completely, and that they are adequately documented in the working papers as required by GAAS and GAGAS.

In addition, the firm should ensure that it consistently performs the suggested audit procedures in the K-12 Audit Guide. If procedures are not performed, or if alternative procedures are performed, this should be documented in the working papers, with an appropriate justification.

Noncompliance With Reporting Standards for Financial Audits (GAAS, GAGAS, K-12 Audit Guide, OMB Circular A-133)

FINDING 8— Reporting deficiencies

The firm stated in the audit reports that the audit was performed in accordance with generally accepted auditing standards, government auditing standards, and the K-12 Audit Guide.

Because the firm did not comply with all applicable standards, as evidenced by the findings in this report, the independent auditor's report, the independent auditor's report on compliance and on internal control over financial reporting, and the independent auditor's report on state compliance are incorrect.

Findings 1 through 5 identify GAAS and GAGAS deficiencies, which substantiate that the firm did not perform the audit in accordance with all applicable standards.

Finding 6 identifies that the firm did not perform a single audit, as required by OMB Circular A-133.

Finding 7 identifies state compliance deficiencies, which substantiate that the firm did not perform the audits in accordance with GAGAS and K-12 Audit Guide requirements.

GAGAS 5.11 states:

Audit reports should state that the audit was made in accordance with generally accepted governmental auditing standards.

GAGAS 5.12 states:

The above statement refers to all applicable standards that the auditors should have followed during their audit. The statement should be qualified in situations where the auditors did not follow an applicable standard. In these situations, the auditors should disclose the applicable standard that was not followed, the reasons therefore, and how not following the standard affected the results of the audit.

Education Code Section 14503(a) states:

For each state program compliance requirement included in the audit guide, every audit report shall further state the suggested audit procedures included in the audit guide for that requirement were followed in the making of the audit, if that is the case, or, if not, what other procedures were followed.

If all applicable standards and requirements are not followed, and the audit reports are not modified to reflect this, the reports are misleading, and the effect on the results of the audit will not be adequately disclosed.

Recommendation

The firm should follow all applicable standards when performing audits. If applicable standards are not followed, the audit reports should be modified to disclose the standards that were not followed, the reasons, and the effect on the audit.

SCO's General Comment

In its response to the draft report (Attachment), the firm stated that it concurs with the documentation issues identified in the Findings and Recommendations section. The firm stated that it has included additional procedural checklists, internal control working papers, and contractual documentation in subsequent audits. In addition, the firm has used the recommendations as a guide to upgrade its audit files in subsequent audits.

The SCO encourages the firm to comply with all elements of the applicable standards and requirements in audits that it conducts in the future, and to ensure that audit reports and the audit procedures performed are adequately supported in the working papers.

**Attachment—
Firm's Response to Draft Report**

Sciacca & Company

CERTIFIED PUBLIC ACCOUNTANTS

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March 14, 2005

Ms. Casandra Moore-Hudnall
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

RE: Quality Control Review
Sciacca & Company
Sundale Union Elementary School

Dear Ms. Moore-Hudnall:

With this letter we are responding to your draft report dated February 2005 of our audit of Sundale Union Elementary School District for the year ended June 30, 2002.

In your exit conference, you discussed these findings with Donald Williams, CPA, and Mr. Williams and I discussed these same findings in an effort to provide the proper documentation in future audits. Per our discussions, based on your exit conferences, it appeared that your references to deficiencies had to do with "checklists" that were not in file. We believe that our audit procedures and our workpaper documentation were adequate, even though some "checklists" were not included in the files. We have participated in the California State Society of CPA's Peer Review program under the guidelines of the American Institute of Certified Public Accountants for over 12 years. Under that program, we undergo audits of our Accounting and Auditing practice every three years. The audits include reviews of our audits of School Districts. We have received "Unqualified Opinions" in our peer review reports in every year we have been audited. We have made every effort to properly document our procedures and workpapers in every audit.

As to the Findings and Recommendations in your audit, we concur with the documentation issues you raised. We have included additional procedural checklists, internal control workpapers and contractual documentation in our subsequent audits. As we mentioned previously, we believed we had adequate documentation, even though some checklists were not included. We have used your recommendations as a guide to upgrading our audit files in subsequent audits.

Sciacca & Company
CERTIFIED PUBLIC ACCOUNTANTS

Ms. Casandra Moore-Hudnall
State Controller's Office
March 14, 2005
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With the implementation of your recommendations, and our continuing participation in our State Society's Peer Review program, we are confident that our Accounting and Auditing procedures and practice is being maintained in a qualified manner.

If you have any questions or comments about this response, please do not hesitate to contact us.

Sincerely yours,

SCIACCA & COMPANY



Fred Sciacca
Certified Public Accountant

cf

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